

RFP 06-003
Master Securities Custody Services
Questions and Answers
February 23, 2006

1. Who are the current third party lending agents? Please state the average number of annual on-loan transactions per year by lending agent.

A. Metropolitan West Securities, LLC is the current securities lending agent. The estimated annual on-loan transactions for the General Portfolio: 1,164. The estimated annual on-loan transactions for the LGIP: 108.

2. Please confirm if the custodian provides trade date, full accrual accounting reports or cash based, settlement date accounting reports. Do you wish to view specific reports (i.e. trade date or settlement date reports) on line? If so, please provide samples of those.

A. The current custodian provides trade date, full accrual accounting reports. On line viewing of all reports is preferable. Sample reports are available by e-mail request to dvasev@nevadatreasurer.gov .

3. At what frequency do you require market valuations; daily or weekly and for which accounts?

A. The current custodian prices securities on a daily basis. The requirement is for pricing at a minimum on a weekly basis, for all accounts.

4. Does the custodian segregate principal and interest in order to allow the State to determine the distributions by State Agency or is that done internally at Nevada Treasury?

A. Yes. The current custodian segregates principal and interest.

5. At what frequency does the custodian amortize?

A. The current custodian amortizes on a monthly basis.

6. Please provide the estimated number of annual outgoing wires from the custodian bank.

A. The current custodian estimates the number of outgoing wires at approximately 500 in 2005.

7. Please state if the custodian is responsible to provide the yield calculation (SIA method).

A. The current custodian is responsible for yield calculations using the SIA method.

8. Please state what internal system the pricing feeds would need to feed and at what frequency.

A. The State Treasurer uses Resource IQ2 (Sungard) for the input of all trading activity. The pricing feed is not being done at present, but is a point of interest that might be looked at in the future.

9. Is there residual daily cash that the custodian is responsible for? If so, please state the average cash balance held at the custodian.

A. The average cash balance across all accounts is approximately \$11,500,000.

10. Who is your current custodian and/or did you make a change in providers as a result of your 2001 custody search?

A. The current custodian is Wells Fargo Bank. The prior custodian was State Street.

11. Please state the fee that you are paying to your current custodian, as we understand that this level of fees was a deciding factor in your 2001 search for a custody service provider.

A. The total fees paid in 2005 were \$146,617.

12. Please outline any other requirements that are handled by the custodian bank.

A. From time-to-time, the custodian may be asked to offer solutions to other State agencies that may require the use of custodial services. The custodian must also be prepared to add new accounts as they are needed. The custodian is also responsible for monitoring the percentage variations of all collateral held against repurchase agreements.

13. What is motivating your search at this particular point in time?

A. The contract between the State Treasurer and Wells Fargo Bank is due to expire. It is the State's general policy that all contracts are solicited on a four (4) year cycle.

14. Please state, if any, improvements you would like to make to your current custodian arrangements.

A. We would welcome any suggestions which would help us to implement GASB reporting requirements.

15. Page 5. Question 3 indicates 22 active securities custody accounts. I calculate 23. Please confirm actual number of accounts.

A. It currently is 23, not 22, but of course the number of accounts may vary during the course of the year. The NVEST program is actively pursuing the addition of new accounts.

16. Page 5. Question 3 Can you provide the total number of annual paydown transactions?

A. The approximate number of annual paydowns is 1800.

17. Page 6. Question 3 What is the purpose of the two Securities Lending Accounts? Do these hold the collateral for loans? Can you provide the average number of positions and the average annual trade volumes for these accounts?

A. The two securities lending accounts act as conduits for lending activities concerning cash movements and securities purchases (collateral). These separate accounts ensure that lending transactions are not commingled with other accounts, facilitates a better audit trail, and makes for easier reconciliation.

GENFD Ave Positions: 29 Ave trade volume: 288

LGIP Ave Positions: 3 Ave trade volume: 43

18. Page 6. Question 3 Can you provide the average number of positions and average annual trade volume for the Repurchase Agreement Collateral Account?

A. GENFD Ave Positions: 1-2 Ave trade volume: \$50-100 Million

LGIP Ave Positions: 1-2 Ave trade volume: \$60-90 Million

19. Page 6. Question 3 Can you provide the names of the Lending Agents?

A. Metropolitan West Securities, LLC.

20. Page 6. Question 3 Can you provide the annual loan volume?

A. GENFD Ave loan volume: 1,164

LGIP Ave loan volume: 108

21. Page 6. Question 3 “The Vendor will provide for the daily accounting and bookkeeping of all accounts and will provide market value of all accounts at a minimum of once a week”. Please define “daily accounting” requirements, i.e. accrual and amortization.

A. “Daily accounting” refers mainly to the settlement of all securities transactions amongst all accounts, and to the posting of matured securities and any

interest payments. Accrual and amortization features are required on a monthly basis.

22. Page 7. Question 3 “ Fees for the vendor’s contracted services will not be paid directly, but will be deducted from either interest earnings before remittance to the State, or from the monthly securities lending program revenues.”

What happens if there is not enough interest income in a given month to cover the fees?

A. Currently, fees are collected from securities lending revenues, and we have never experienced a shortfall. If there were to be one, the liquidity of the General portfolio is sufficient to pay the fees. In a worst case scenario, a physical check would be issued to cover the fees.

Will the method of collection of fees be determined at the onset of the contract, or can it vary from month-to-month?

A. The method will be determined at the onset of the contract. Currently, fees are paid from securities lending revenue.

Does securities lending revenue flow through the custody account in order to be used as a source of payment of fees?

A. Yes.

23. Please provide the total number of annual incoming and outgoing wire transfers?

**A. Number of outgoing wires: approximately 500.
Number of incoming wires: approximately 500.**

24. Page 7. Question 3 “The State Treasurer requires the vendor make available monies from maturing securities and interest earnings...by 6:00 am PT.” Could you provide a range of out flowing dollars on peak volume days?

A. On peak volume days, \$300,000,000 would be at the high end for the General portfolio. The volume of the LGIP is about \$85-125,000,000 on a daily basis.

25. Page 8. Question 3.4.12 Please provide average daily cash balances.

A. The average cash balance across all accounts is approximately \$11,500,000.

26. Page 9. Question 3.7 Performance Measurement\

Are you currently receiving risk services, and if so from whom?

Are there any sample reports available?
What timeframe do you require reporting - daily, weekly, monthly, quarterly, annual?

Which, and how many, accounts require performance? Any roll up of accounts?

They mention performance and universe comparisons. Are there any other risk reports (compliance, attribution, etc) needed? And based on what time frames?

A. Currently, the only performance measurement used is provided by the external investment managers (17 accounts) on a quarterly basis. Roll up of accounts is not practiced. Each account has its own benchmark. Performance measurement against specific benchmarks (i.e. Merrill 1-5) is the only point of interest. Please also indicate if there is an additional cost for this service.

27. Page 14. Question 7.11 Items within section 7 (Submittal Instructions) appear to be information. However, item 7.11 appears to be an actual question. Should this be answered in the actual RFP response?

A. No.

28. Page 19. Question 9.24 If there are exceptions to the contract found in Attachment B, should these be identified on Attachment B?

A. Please identify any exceptions (including exceptions in the Contract) on Attachment A, Certification of Indemnification and Compliance, Page 21.

29. Page 20. Question 10 Item 10 Verification of licensure for Primary Vendor (if applicable). This particular document does not seem to be referenced within the actual RFP. What is this document? Is it related to doing business in the State of Nevada?

A. This is not applicable, please ignore.

30. Page 36. Select Investment Portfolios. Is it possible to get an excel file of the holdings in all 22 (23) investment, securities lending and collateral portfolios? If not, can you provide the total number of holdings across all portfolios?

A. The holdings are not available in excel. The total number of holdings across all portfolios is approximately 725.

31. The RFP includes holdings for several portfolios of securities:

With regard to account structure/schematics, are there only 6 accounts required (i.e. only 6 investment managers)? Or are there multiple investment managers within these portfolios requiring separate accounts? If so, how many? Please provide a schematic.

A. There are currently 23 different portfolios, the holdings reports in the RFP are a sample of the types of portfolios that are maintained. Please refer to pages 5 and 6 of the RFP for the schematic of the different portfolios.

32. What is the monthly reporting due date/business day deliverable date?

A. The 10th business day would be sufficient for hard copy reports. We would like to see on-line holdings reports the day after month-end.

33. Are there any customized reporting requirements?

A. We would like to know the availability of custom reports in the case that your standard reports don't meet our specific requirements.

34. The accounting requirements on pages 78-79, please define what the custodian requirements are vs. the State Treasurer. How would the custodian assist the State Treasurer in these reporting requirements?

A. The accounting requirements on pages 78-79 concern the internal accounting system maintained by the State Treasurer. The custodian is responsible for providing reports which detail holdings (daily) and accruals on a monthly basis, and a daily transaction detail report of all purchases, sales, paydowns, and interest payments. It is not the custodian's responsibility to compute interest distributions.

35. NVEST Scope on page 86 states "The State Treasurer may establish one or more separate sub-accounts in the local government pooled long-term investment account for identified investments that are made for and allocated to specific participating local governments." What is the custodians' responsibility with regard to these sub-accounts?

A. The custodian will maintain a separate account for each local government that elects to participate in the NVEST program. The custodian would work with the dedicated external investment manager to process all trades, paydowns, and interest payments.